Rabobank

Agri Commodity Markets Research

July 2021: Frozen Beans, Baked Beans

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Softs stole the show in July, as frost hit the heart of the Brazilian arabica coffee belt and also impacted sugar. The worst frost in 27 years led to ICE Arabica jumping by 27% and Robusta by 12% so far in July (coffee trees are very susceptible to frost damage), while sugar jumped 4.7%. At the time of writing, another cold front is entering Brazil and will reach key coffee areas on Thursday and Friday. Elsewhere, weather has not been much kinder. Excessive rain and floods affected wheat quality in western Europe, while the ongoing hot weather and drought in North America worsened conditions for spring wheat, corn, and soybeans. Further afield, there were flash floods in China and India. Usually, weather would return to normal after such extremes, but there is a 66% chance of another La Niña event by the end of the year. So normal weather, if we see it, may not last for long.

WHEAT

CBOT Wheat forecast elevated on spring wheat weather woes as global supplies tighten

- Winter wheat harvest is progressing in both the US and Europe, but recent rainfall may lower protein.
- Global spring wheat crops continue to be in dire straits as drought expands across the globe.

CORN

Rabobank's high Corn price outlook appears set to endure on extended supply constraints

- Rainfall appears too late to materially improve conditions or achieve the USDA's yield expectations.
- Brazil's harvest failure cuts export potential and burdens US export capacity for another year.

SOY COMPLEX

Rabobank's bullish CBOT Soy price has been met amid worsening US drought conditions

- US soy may have lost the upper hand for land, with stockpiles remaining extremely low for another year.
- CBOT Soymeal and Oil face headwinds from growing South American byproduct export competition.

PALM OIL

Volatility in global soft oils complex prices will provide support to palm oil prices

- Malaysian 2021 palm oil production will potentially be lower year-on-year.
- Indonesian palm oil production is still expected to recover year-on-year in 2021.

SUGAR

ICE #11 Sugar prices to be supported on a strong ethanol market and adverse weather

- ICE #11 prices moved between the Indian export parity and the Brazilian ethanol parity as expected.
- Frosts in Brazil pushed prices to a 4 year high. The damage is hard to assess, but will be less than coffee.

COFFEE

Frost hits the heart of the coffee belt in Brazil

- A moderate frost has hit the arabica coffee belt, commercial shorts caught out aided the price spike.
- The full extent of the damage is still unknown, but estimates range from 2m bags to 6m bags off the potential of the 2022/23 crop.

COCOA

Cocoa price forecast lowered in the short term amid better-than-expected availability

- Cocoa grindings in consuming regions breached pre-pandemic levels, bolstered by a decline at origin.
- Present availability high with exchange stocks showing few signs of net drawdowns.

COTTON

ICE #2 Dec21 Cotton marched higher, testing the USc 90/lb level

- Prices will likely remain supported for the next few months and be tested by the arrival of harvests.
- US cotton production appears to be in very good shape, having gone from a crop that was 41% in drought in March to 0% in drought as of July 20.

Wheat

CBOT Wheat forecast elevated on spring wheat weather woes as global supplies tighten

- Winter wheat harvest is progressing in both the US and Europe, but recent rainfall results in lower average protein.
- Global spring wheat crops continue to be in dire straits as drought expands in the US, Canada, Russia, and Kazakhstan.
- Australian exporters will likely benefit from a limited global resupply of northern hemisphere spring wheat.

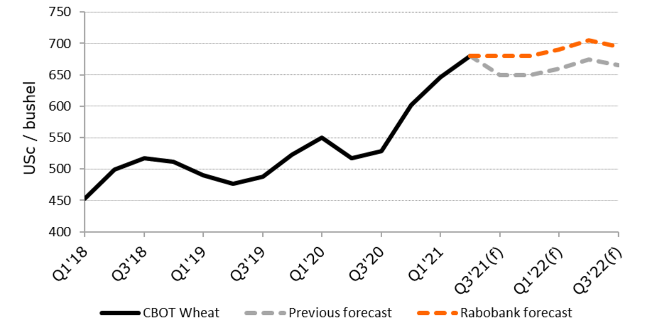
Volatility returned to wheat markets this month, as shifting weather patterns sent prices whipsawing lower and higher to finish largely where they started. At 84% complete, winter wheat harvest is now outpacing the five-year average in the US, while it continues to look delayed in many parts of Europe as heavy rains and flooding limit progress. European winter wheat may have some quality issues, as late rains are associated with a decline in protein content, but they will likely be offset by the large year-on-year production increase for the region. Lower-quality wheat will also be happily taken to meet local feed demand. Europe will likely be the origin of choice for exports this season, as Russian taxes appear to be slowing the initial flow of exports out of the country; the situation will become clearer in the months ahead.

Global spring wheat crops continue to be in dire straits as droughts in the northern US, Canada, Russia, and Kazakhstan expand. In the US, 99% of the spring wheat crop is now experiencing drought, with good-excellent ratings (9% as of July 25) in free fall. Some estimates suggest losses could be as high as 50% YOY with little improvement seen in the forecast. Last month, the USDA released its estimate for 2021/22 HRS wheat production, which is expected to be 305m bu – a reduction of more than 40% YOY that may still have further to fall. Good HRW wheat yields will provide some respite. But, despite expectations of high winter wheat harvest volumes in the US and Europe, we may see little downward pressure on prices, as some spring wheat demand may switch to winter wheat where possible. However, rainfall in the US before harvest appears to have impacted protein levels for HRW wheat, which at 13% appear slightly below the five-year average of 13.2%. SRW wheat protein levels also appear slightly lower at 10.7% vs. 10.9 (dry basis protein), as reported by US Wheat Associates. The lower protein levels for HRW and SRW wheat may make switching difficult and further stretch premiums for high-protein wheat.

Australian exporters will likely benefit from a limited global resupply of northern hemisphere spring wheat in the months ahead. Production expectations for Australian wheat are high, and farmers have had success with plantings in the last couple of months, with plantings more or less complete. Initial acreage estimates suggest a planted area similar to 2020/21. Weather forecasts appear favorable, and if severe frosts can be avoided in the months ahead, production may be very good for a second year. The lower availability of northern hemisphere spring wheat this season and high shipping costs will likely reinforce Australia's role as a key origin for Asian wheat demand.

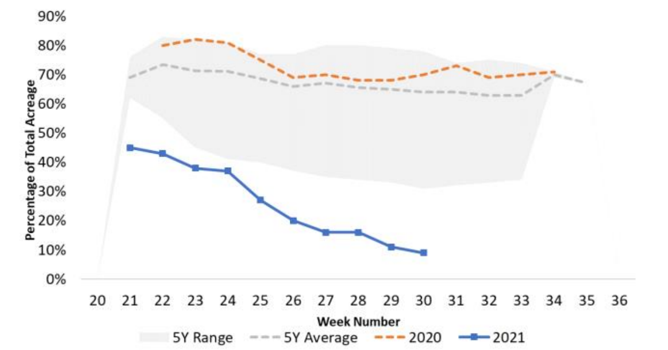
Wheat price forecast raised on spring wheat issues

	unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
CBOT	USc/bu	602	646	680	680	680	690	705	695
Matif	EUR/mt	208	227	219	210	210	213	220	215



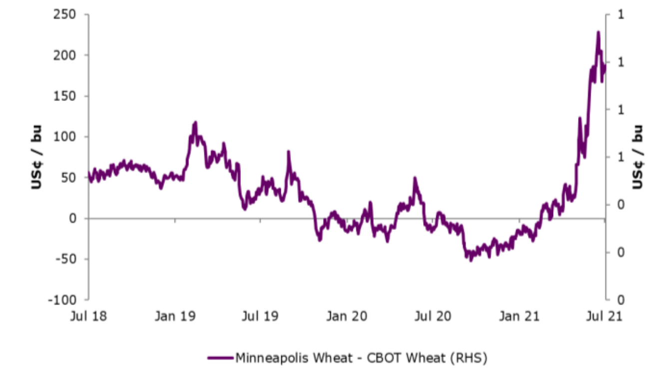
Source: Bloomberg Finance L.P., Rabobank 2021

US spring wheat ratings are in free fall, at 9% good-excellent, as drought expands in the northern US



Source: USDA, Rabobank 2021 as of 25 July 2021

The Minneapolis-Chicago Wheat spread remains elevated as higher protein wheat looks to be in short supply



Source: Bloomberg Finance L.P., Rabobank 2021

Corn

Rabobank's high CBOT Corn price outlook appears set to endure on extended supply constraints

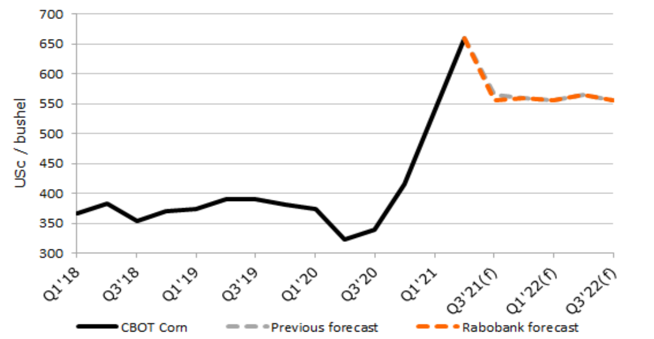
- Rainfall achieved too little, too late to materially improve conditions or achieve the USDA's yield expectations.
- Brazil's harvest failure cuts export potential by ~15mmt YOY and burdens US export capacity for another year.
- Rabobank sees US 2021/22 corn stocks remaining near 1bn bu, enticing both fund and commercial support.

CBOT Corn rose 1% MOM, to USD 5.55/bu, a modest gain that belied unprecedented price volatility, including three swings of 10% or more. Small shifts in US weather and acreage are having outsized impacts on price, given the paucity of US ending stocks (1bn bu, the lowest in nine years) that leaves corn on the verge of rationing demand. High CBOT volatility looks set to extend well into 2022. In contrast to the USDA, Rabobank does not see US ending stocks enjoying a material reflation next year to 1.5bn bu, as yield declines and strong demand will combine to entirely offset the additional acreage gains (+2m YOY) in the drought-hit Northern Plains.

Rabobank maintains its bullish price forecast for CBOT Corn above USD 5.50 over the coming year, given a lack of exporter supply buffers and drought-constrained 2021 harvests in the US and Brazil. Brazil's 2020/21 safrinha crop issues have run the gamut: late plantings, excessive heat, excessive cold. The combined result has cut production and export estimates by roughly 20mmt each since February. The absence of a Brazilian export outlet until August 2022 at the earliest breaks the USDA's argument for reduced US market share next year. If US exports fall dramatically, it will be due to rationing. Hence, while CBOT Corn spent much of the previous six years sandwiched between USD 3 and USD 4/bu, strained supply/demand dynamics argue for a new price range, with strong commercial support below USD 5 and demand rationing above USD 6. Rabobank sees that new trajectory enduring into 2022 and potentially longer, given the broad tightness and enduring planting competition across grains and oilseeds that cannot be solved this season.

CBOT Corn's high price outlook largely maintained

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Corn	USc/bu	417	538	659	555	550	555	560	555

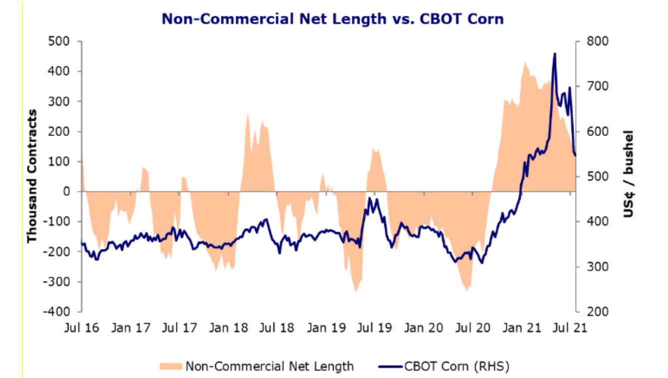


Source: Bloomberg Finance L.P., Rabobank 2021

Funds liquidated two-thirds of their historic net length in CBOT Corn (-283,795 lots) in recent months as consecutive failures to break USD 6/bu and weakening commercial purchases gave rise to perception of limited upside. While technical resistance and low import demand remain valid concerns for CBOT Corn bulls, 2020/21 commitments are in line with the USDA's record export target, and 2021/22 commitments are well ahead of normal, thanks to massive Chinese procurement (12mmt YTD). Concerns about declining Chinese corn import demand are premature – feed grain use in China was rationed in 2020/21, with a larger reliance on wheat and rice. China's corn use growth in 2021/22 is likely to match production and could exceed it, with ~25mmt corn imports acting as a further safeguard for long-suffering stockpiles.

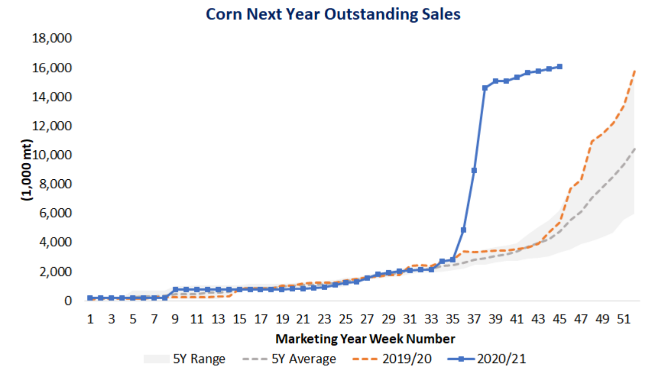
Rabobank's bullish message to wary consumers notwithstanding, existing hedges will gradually roll off, and farmers will be in a strong position. US harvest pressure cannot be counted on this year amid waning crop conditions (64% good- excellent, 8% below 2020/21 and 4% below a five-year average that included two bad years) any more than it could last summer, when China booked up US Q4 2020/Q1 2021 export capacity. Consumers should be wary.

Large non-commercial liquidation has been picked up by nervous consumer, with farmers loathe sellers



Source: CFTC, Bloomberg Finance L.P., Rabobank 2021

US 2021/22 corn sales pace has slowed but remains ahead of normal and 26% of USDA's full-year export estimate to China



Source: USDA., Rabobank 2021

Soybeans

Rabobank's bullish CBOT Soy price has been met amid worsening US drought conditions

- US soy may have lost the upper hand for land, with stockpiles remaining extremely low for another year.
- Crop conditions have been subpar, especially in the highly important Dakotas, diminishing the likelihood of perfect yields and consumer satisfaction.
- South American exports have flown out to China, whose demand growth for beans may slow.

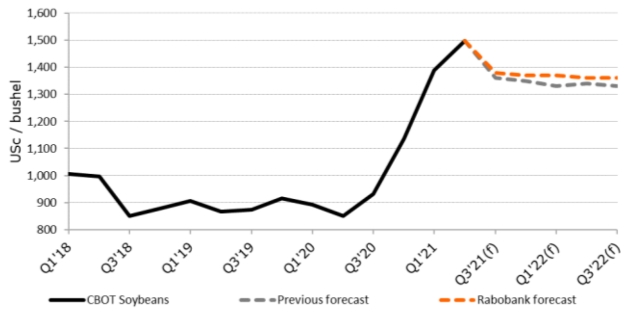
CBOT Soy rose 5% last month, as persistent drought in key soybean areas pierced hopes for the strong national yields needed to drag ending supplies off the warehouse floor. Higher US soy acres, a South American resupply, and slowing Chinese demand all have the potential to limit upside somewhat, but the prospect of US stocks-to-use at 3% through next year is an inescapably supportive price risk factor. CBOT Soy's price risk will not substantially subside at least until the US crop is binned this fall, and likely not even until Brazil's 2022 crop arrives early next year. Until that time, weather adversity from US drought and South America's likely La Niña (probability is two-thirds this autumn, precisely when rain is needed) raises Rabobank's price view along the curve at or above USD 1,360/bu.

The main factor keeping CBOT Soy prices from record levels is the fortunate survival of Brazil's and Argentina's soy crops (183.5mmt, +3.5% YOY) from La Niña drought last year, as well as improved prices that position farmers in those countries to relieve export pressure in the US. Hence, Argentina's export-bound crush output is 8% higher this year, despite a smaller crop, while Brazil's 83mmt front-loaded soy export program has flowed to China, which now sits on enormous stockpiles. Brazilian farmers have since become more reluctant sellers of their remaining wares, and Chinese crushers have seen margins fall dramatically amid falling pork prices and lower meal inclusion in feed rations. No wonder the USDA lowered its Chinese 2021/22 soybean import number from 103mmt to 102mmt. Slowing Chinese demand is combining with improved competitiveness from South America, particularly for soymeal, to constrain US crush. NOPA reported the lowest crush output in two years last month (152.4m bu), and the last five reports have been a cumulative 5% below expectations. Slowing global soymeal demand, with its focal point in China, creates a narrow path to avoiding a hard US stocks landing, although the paucity of the new crop makes modest rationing the likelier outcome.

Soybean conditions in the Northern Plains and Minnesota (25% of the total area) are languishing with one third or less of their crops in good-excellent condition, pulling national conditions down to 58% good-excellent, -14% YOY and near the bottom of the five-year average. The drought – and farmer suffering – extends northward to Canada's export-oriented canola crop as well. With US soy pods >50% filled and generalized dryness and heat in the one-week forecast, it is too late in the day to achieve the USDA's 50.8 bu/acre yield. Even 50 bu/acre might be difficult, and reflect a yield just high enough to keep US stockpiles around a paltry 100m bu, even given lower demand. Well-supplied South America and China temper CBOT Soybeans' price upside in the near term. However, oilseed production doubts in North and South America over the coming six months and protracted G&O competition for acreage next year is expected to keep CBOT Soybeans trading near USD 14/bu. Typical harvest pressure from farmers can't be relied on in low-supply markets.

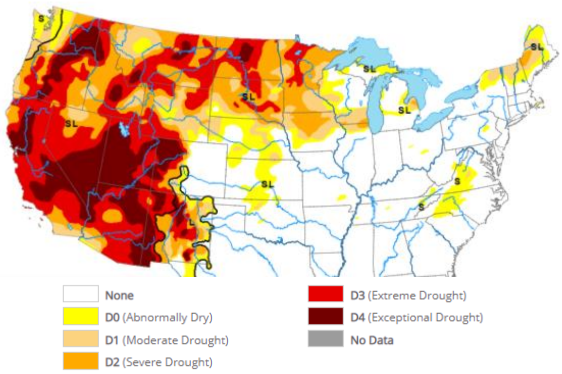
CBOT Soy price nudged higher on US yield concerns

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Soybeans	USc/bu	1135	1388	1497	1380	1370	1370	1360	1360



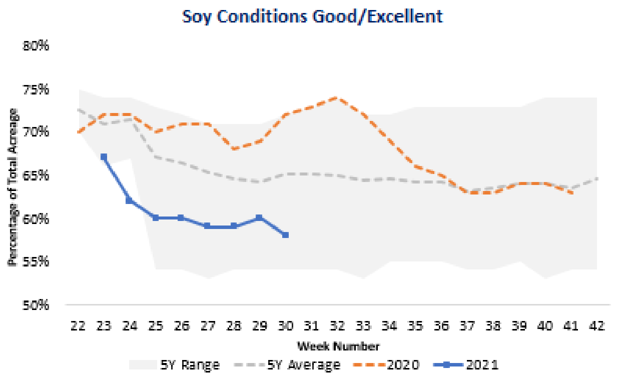
Source: Bloomberg Finance L.P., Rabobank 2021

The lion's share of expanded US soy (and corn) acreage is in the drought-stricken northern areas, with little respite ahead



Source: USDA, NOAA, NDMC, UNL, Rabobank 2021 as of 22 July 2021

US 21/22 Soy conditions are falling during key development; yield cuts will outweigh demand losses and keep stocks low



Source: USDA, Rabobank 2021

Soymeal and Soy Oil

CBOT Soy Oil regained its hot hand on US/Canada weather concerns, while Soymeal continued to tread water amid cooling US and Chinese demand

- CBOT Soy Oil heats up with US/Canada oilseed weather, while low US soy crush presents further supply risk.
- Cooler Chinese demand will constrain CBOT Soymeal.
- CBOT Soymeal and Oil face headwinds from growing South American byproduct export competition, reinforced by good harvests, crushings, and reduced biodiesel mandates.

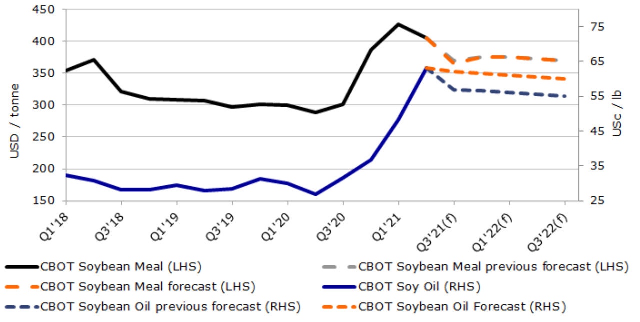
CBOT Soy Oil rebounded in July, rising 7%, to end near USc 65/lb amid a shrinking US soybean harvest and weak US crush that have eroded US stockpiles. Prices have risen an astounding +110% YOY and sit a mere 5% off their record high. Soy oil's massive, unexpected demand growth in feed rations (principally for China) last year has shifted to surging biodiesel demand (focused in the US). These alternative uses of soy oil – for feed and energy – have taken the baton from traditional (low growth) food use and driven vegetable oil supplies to their lowest levels in 11 years. Improved 2021/22 South American soy production (+3.6% YOY) and crushings (+4.1% YOY) notwithstanding, CBOT Soy Oil buyers may continue to suffer high prices, as US supplies get absorbed by domestic demand constraints and dismal crush output. Rabobank raises its price forecast USc 5 along the curve, after the USDA's WASDE revised 2020/21 US soy oil stocks-to-use to match a record low of 5.5%.

High soy oil prices will undoubtedly curtail global demand; the USDA forecasts 3% growth in 2021/22 vs. 5% last year. China's slower meal and oil demand growth are major factors, as is evidence of demand rationing in key exporting nations like Argentina and Brazil, who recently lowered biodiesel mandates. Indonesia's mandate fulfillment is also in doubt. The nations' biodiesel decisions could open considerably more vegetable oil to the export market. However, the US's conspicuous absence from these exporter cuts keeps the bullish momentum going. The USDA is forecasting >6% domestic demand growth in the US next year. That's entirely due to a 30% increase in US soy oil for biodiesel. Biodiesel's share of overall US demand is expected to hit nearly 50% in 2021/22, far more than ethanol's share of US corn (35%), and necessitate cuts in domestic food use (-8% YOY) and particularly exports (-17% YOY, after a 37% fall this year).

In the US, five months of disappointing NOPA crush output (5% below expectations, with June the lowest crush in two years) has exacerbated the divergent fortunes of laggard CBOT Soymeal (+2% MOM) with its golden counterpart. China's booming soy stockpiles and falling hog prices have led to lower import projections on both. There is also evidence China is lowering inclusion of soymeal in feed rations. Meanwhile, Argentina's largest crush program in four years has constrained US export sales. Despite these weaker demand factors, Rabobank remains bullish, with CBOT Soymeal at or above USD 370/mt. Lean hog prices remain historically high, with potential upside for feed demand. China's low pork price environment incentivized some hog liquidation, which could precede a rebound in 2H 2021. In the US, crush margins are 30% above the year-to-date average. Most importantly though, US soy supplies are extremely low, and the new harvest risks serious yield damage from drought. A mediocre US soy crop and La Niña's likely re-emergence in South America could support CBOT Soymeal prices next year.

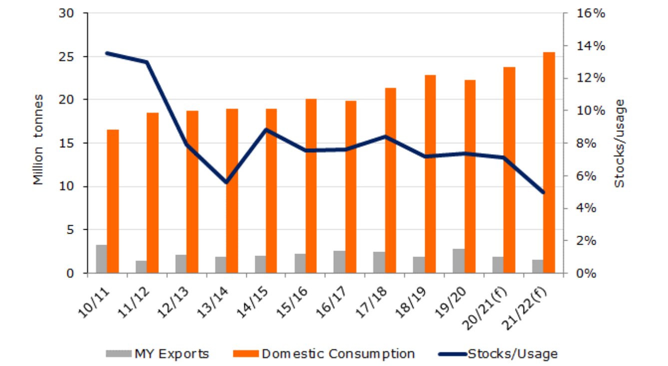
CBOT Soy Oil and Meal supported

	Unit	Q4'20f	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Soymeal	USD/ton	386	426	400	365	375	375	372	370
Soy Oil	USc/lb	36.8	48.2	63.1	62.0	61.5	61.0	60.5	60.0



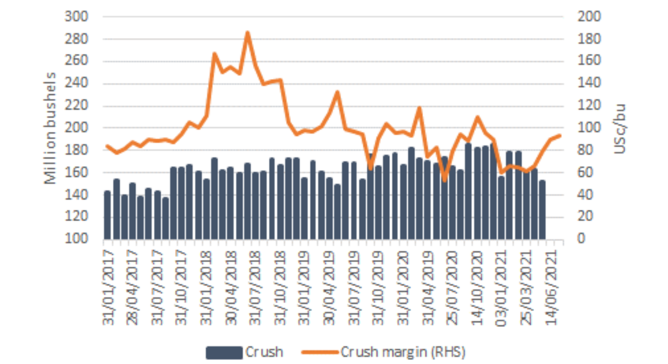
Source: Bloomberg Finance L.P., Rabobank 2021

US soy oil's growing biodiesel use will force export rationing and push 2021/22 ending stocks to a record low



Source: USDA, Rabobank 2021

US crush margins and output have disappointed in recent months on paltry soybean stocks and soymeal competition



Source: NOPA, Bloomberg Finance L.P, Rabobank 2021

Palm Oil

Volatility in global soft oils complex prices will provide support to palm oil prices

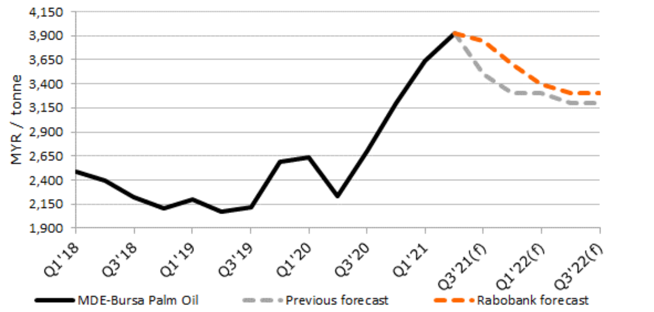
- Malaysian 2021 palm oil production will potentially be lower year-on-year.
- Indonesian palm oil production is still expected to recover year-on-year in 2021.
- The sowing of Indian 2021 kharif crops lags behind last year.

Volatility in global soft oils prices will affect palm oil prices in 2H 2021. Hot temperatures and insufficient rainfall across important growing regions in June and July 2021 could still negatively impact soybean and canola production in North America. This could exacerbate the tight global soft oils fundamentals and provide more support to global soft oils prices.

Malaysian 2021 palm oil production will potentially be lower year-on-year. MDE-Bursa Palm Oil active contract prices recovered from a low of MYR 3,375/mt in June 2021 to reach above MYR 4,200/mt in July 2021. The sharp price increases occurred due to Malaysia's lower-than-expected palm oil production in June, expectations for relatively low Malaysian palm oil production in July, and the weakening of the Malaysian ringgit. According to MPOB, Malaysian June palm oil production increased by 2% MOM, to 1.6mmt. Meanwhile, Malaysian June palm oil exports and inventories also increased by 12% and 3% MOM, to 1.4mmt and 1.6mmt respectively. Malaysian monthly palm oil production has been consistently lower on a year-on-year basis in 2021, on the back of a worsening labor-shortage issue, which has resulted in palm oil production losses. As a result, Malaysia's 1H 2021 palm oil production decreased by 7.6% YOY, to 8.4mmt. Hence, we revise our Malaysian 2021 palm oil production forecast down to 18.9mmt, or 1.3% lower YOY.

We have revised our price forecast higher

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Palm Oil	MYR/ton	3,204	3,634	3892	**3,850**	**3,600**	**3,400**	**3,300**	**3,300**

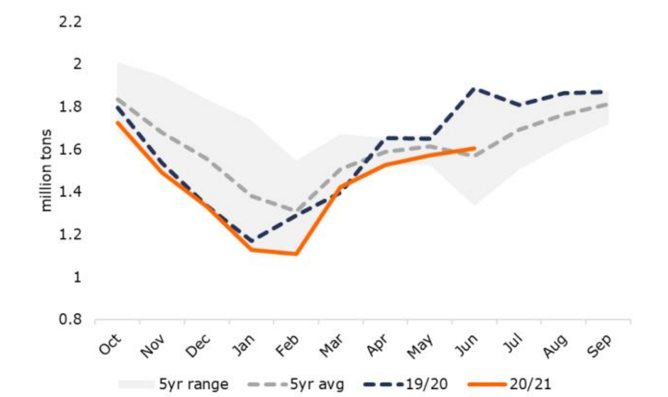


Source: Bloomberg Finance L.P., Rabobank 2021

Indonesian palm oil production is still expected to recover year-on-year in 2021. According to GAPKI, Indonesian May 2021 palm oil (including lauric oils) production increased by 6% MOM, to 4.4mmt. Despite this production increase, Indonesian May palm oil (including lauric oils) inventories decreased by 7.6% MOM, to 2.9mmt, as Indonesian exports of refined palm oil products were strong in May 2021. Meanwhile, Indonesian monthly crude palm oil production has been consistently higher on year-on-year basis since March 2021 after starting the year with lower year-on-year monthly palm oil production in January and February. As a result, Indonesian crude palm oil production for the first five months of 2021 increased by 3.2% YOY, to 17.9mmt. Based on this trend, we forecast Indonesian crude palm oil production will increase by 3.4mmt YOY, to reach 50.4mmt in 2021.

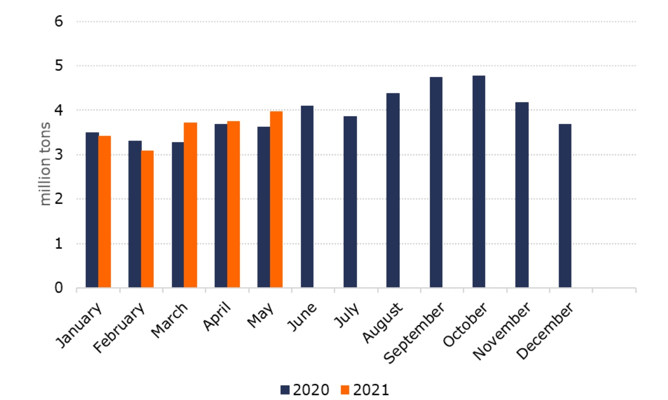
The sowing of Indian 2021 kharif crops lags behind last year, due to isolated and scattered monsoons in few Indian regions. As of July 23, 2021, India's soybean sowing area only reached 10.2m hectares, 8.7% behind last year. Reservoir water levels across the country were also lower than last year, though still higher than the ten-year average. If India's monsoon continues to make slow progress, it could negatively affect 2021/2022 domestic soybean production. This will increase the country's need to import vegetable oils in Q4 2021.

Malaysian monthly palm oil production remains lower YOY



Source: MPOB, Rabobank 2021

Indonesian palm oil production will recover YOY in 2021



Source: GAPKI, Rabobank 2021

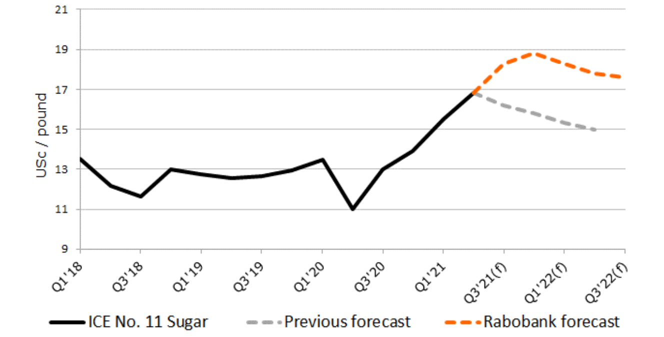
Sugar

ICE #11 Sugar prices to be supported on a strong ethanol market and adverse weather

- ICE #11 prices reached the highest levels in four years, but as expected, they moved largely between the Indian export parity and the Brazilian ethanol parity.
- Prices were supported by frosts in Brazil. The damage is always difficult to quantify, but sugar cane is not as sensitive to frost as coffee trees are.

ICE #11 Sugar price forecast increased

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2,22f	Q3,22f
Sugar	USc/lb	13.9	15.5	16.9	18.3	18.8	18.3	17.8	17.6

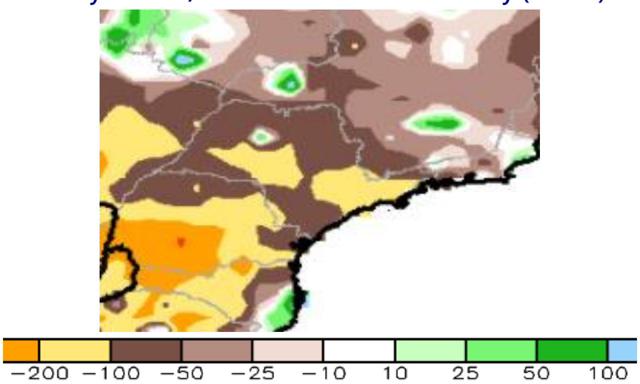


Source: Bloomberg Finance L.P., Rabobank 2021

ICE #11 July 21 Raw Sugar has climbed by only 1.8% so far in July, staying toward the upper side of the range between the ethanol parity and the Indian export parity. Though this move is rather small, it takes place despite a 1.6% drop in Brent crude oil and a 4% depreciation in the Brazilian real. The main reason lies with the three frost episodes that hit Brazilian sugar areas in the last month and a fourth episode expected at the end of July. The damage should become more visible in the sugar content in the upcoming harvest updates in 2H July. This concern, of course, comes after a year of dry weather, which affected cane volume and could also lower cane availability in 2022/23. On top of the current difficulties, a La Niña episode is expected by Q4 2021, and La Niña tends to make southern Brazil drier than normal. This could further affect cane growth for the 2022/23 season. Furthermore, with ethanol parity at USc 16.9/lb during the peak of the harvest, there is no reason to assume another year of maximum sugar in Brazil in 2022/23. A lower sugar mix could easily wipe out enough sugar to more than offset the expected recovery in Thailand, so prices will need to remain elevated in order to avoid a large shortfall in 2022/23. This underpins the increase in our price forecast.

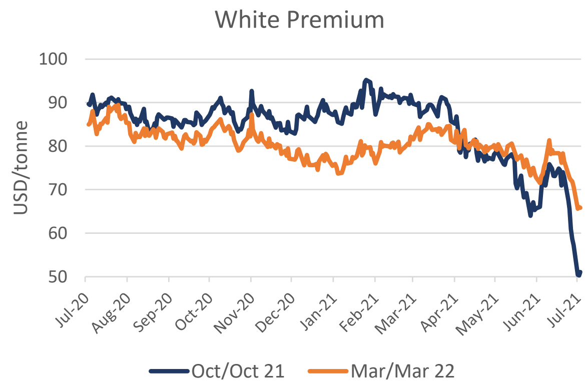
The white sugar premium continued to plummet. The Oct/Oct sugar premium continued to collapse, from USD 90/mt in mid-April to just USD 54/mt, making toll refining unprofitable for the most part. To a large extent, the drop in the premium is a reflection of the strength in raws, but the drop in the white premium seems to indicate lower demand. Demand from the out-of-home sector is likely to be a little disappointing, especially in Europe. The UK is currently one of the most vaccinated large economies, and last week it observed Freedom Day, the day when (almost) all restrictions were lifted. However, the Minister of Health had Covid, and the prime minister spent the day in self-isolation, denting that confidence in a quick return to normality. In mainland Europe, some companies asked their employees to return to working from home in light of increasing Covid cases. Meanwhile, in the US, cases continue to rise. However, as seen earlier in the pandemic, lower out-of-home consumption is largely replaced with at-home consumption. Therefore, the drop in the Oct/Oct white premium seems a bit exaggerated, and a recovery in August is likely. Meanwhile, the March/March white premium will see a lot of volatility arising from the uncertainty regarding Indian export subsidies. With the current prices and budget pressures, the government of India will likely be very slow in approving any outlay, and any subsidies will likely be modest, given that current prices are almost high enough to incentivize unsubsidized exports.

Drier weather than normal in Brazil will likely affect availability in 2022/23. 3-month rainfall anomaly (in mm):



Source: NOAA, Rabobank 2021

Oct/Oct white premium down, but it could be a short-term overreaction



Source: Bloomberg Finance L.P., Rabobank 2021

Coffee

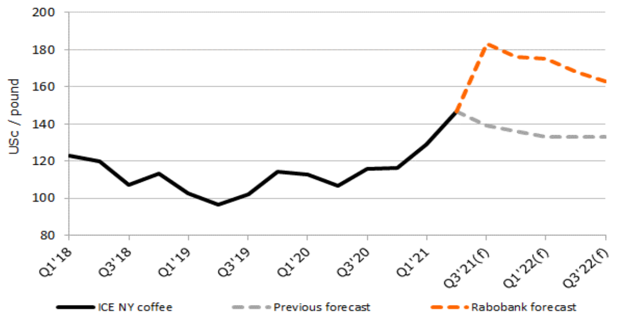
Frost hits the heart of the coffee belt in Brazil

- A moderate frost has hit the arabica coffee belt, but there was likely some lifting of commercial short hedges that aided the price spike.
- The full extent of the damage is still unknown, but estimates range from 2m bags to 6m bags off the potential of the 2022/23 crop.

ICE Arabica prices have jumped by more than 30% so far in July, following a highly unusual frost event that hit the heart of the Brazilian coffee belt on July 20. The extent of the frost was quite impressive, covering South of Minas, lower Mogiana, and, to a lower extent, Alta Mogiana and Cerrado. While the current crop is unaffected, the loss estimates for the 2022/23 crop range from 2m bags to 6m bags, with some outliers on both sides. Much of the damage depends on the reaction of the trees and how much structural damage the branches and trunk have sustained (which is difficult to see for now). For now, we assume that no significant proportion of adult trees have died, but this remains to be seen. Furthermore, the loss of production in 2022/23 also depends on the reactions of farmers, who will prune more or less aggressively. A potential 5% increase in aggressive pruning (skeletising/trunk cut) in the affected areas would result in a loss of 1.5m bags in 2022/23. This is in addition to the typical 10% to 20% aggressive pruning rate. On top of this, there will be a lot of selective pruning (when farmers cut only a small part of the tree), which could result in an even bigger loss, but this is harder to quantify. Trees that are not pruned but were affected may have less energy to face the flowering process once the rains return (typically in September), as their priority will be to replace the lost leaves in the first place. Meanwhile, the proportion of young trees aged one to three years that will need to be replanted is quite high, and this will result in lower production growth in the coming three years (coffee trees usually peak at seven to eight years). With the current prices, most of those trees are likely to be replanted quickly.

Price forecast raised on frost damage, but bearish

	unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
ICE Arabica	USc/lb	116	129	147	180	175	173	165	160
ICE Robusta	USD/mt	1350	1372	1512	1800	1800	1750	1700	1600

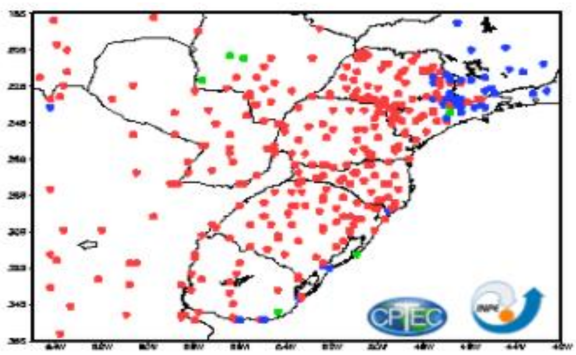


Source: Bloomberg Finance L.P., Rabobank 2021

Bad things come in threes. The frost comes after a year of mainly dry weather in Brazil's arabica coffee areas. The trees had relatively fewer leaves and smaller branches before the frost hit last week. As if trying to prove the proverb right, another cold front is reaching the Brazilian coffee belt later this week. Most cold fronts do not result in frost in the heart of the coffee belt, but this seems to be a particularly large mass of cold air. Some weather forecasts expect freezing temperatures, while others expect temperatures of around 1C in parts of South of Minas, so only marginally above freezing. Usually, it is the same plots that are prone to frost that freeze again. So even if this new cold front causes frost, much of the effect will likely be on already lost leaves and branches.

Prices are highly volatile in a weather market. Some of the upside may relate to commercial hedge lifting, and if this is so, prices should be coming off relatively soon. It is easy to panic when one gets bombarded with pictures and videos of the affected area and sees prices climbing. Once rainfall comes, flowering may actually look quite decent and change the mood of the market. The price upside will, in the meantime, incentivize fertilizer use across other countries in the world.

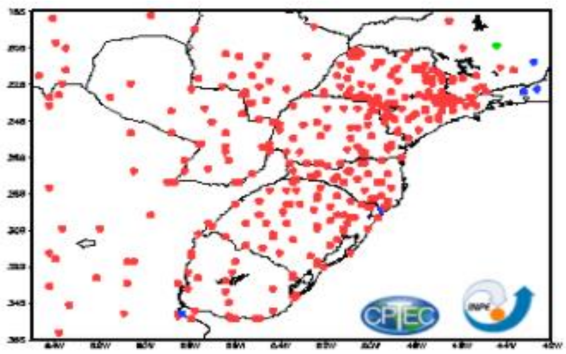
Potential frost on 29 July. Weather forecast:



Red = High Risk Green = Low Risk Blue = No Risk

Source: IMMET, Rabobank 2021

Potential frost on 30 July 2021. Weather forecast:



Red = High Risk Green = Low Risk Blue = No Risk

Source: IMMET Rabobank 2021

Cocoa

The cocoa price forecast has been lowered in the short term amid better-than-expected availability

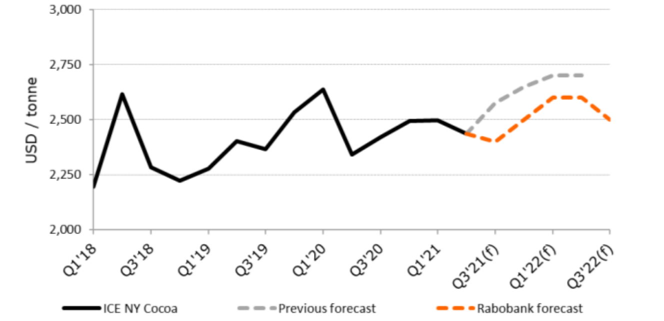
- Cocoa grindings in consuming regions breached pre-pandemic levels, bolstered by a decline at origin.
- Present availability continues to surprise, with exchange stocks showing few signs of net drawdowns.
- Rabobank continues to see the global 2021/22 supply-and-demand balance tighter year-on-year.

Cocoa prices zigzagged this month with the release of Q2 2021 grinding figures and the continued flow of beans to exchange stocks, driven by bolstered crops in Ghana and Côte d'Ivoire. Q2 2021 grinding figures for the three main consuming regions were broadly supportive, and if we account for the loss of processing in Côte d'Ivoire due to the electricity blackouts the country experienced in April/May, grind figures were well in line with Rabobank's Q2 estimates. Cocoa grindings reported for Europe, North America, and Asia rose 11.8% YOY for Q2 2021, to over 701,438mt. It's likely that around 20,000mt of this processing volume is a result of the loss of processing in Côte d'Ivoire. If we account for the shift, processing likely rose 8.6%. This would be a figure extremely near pre-pandemic levels and is a positive sign for the recovery in demand and adaptation of supply chains. We continue to be optimistic on cocoa demand and expect Q3 2021 to show a small increase on pre-pandemic levels.

Present supplies are extremely good – in fact, much better than expected. Recent reports suggest production in Ghana will reach a new record or near record and is likely above 1mmt. Côte d'Ivoire has also had an extremely good year in terms of production and exports, and despite exchange stocks historically declining this time of year, they remain elevated in both the US and Europe, with few signs of net drawdowns. It's hard to be bullish when current supply looks so good. However, we err on the side of

ICE NY and London Cocoa lowered in the short term

	unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
ICE NY	USD/t	2,495	2,496	2436	2,650	2,725	2,800	2,800	2,800
ICE London	GBP/t	1,696	1,695	1640	1,730	1,770	1,810	1,810	1,810



Source: Bloomberg Finance L.P., Rabobank 2021

caution rather than complacency, despite raising our estimate for the 2021/22 surplus to 240,000mt.

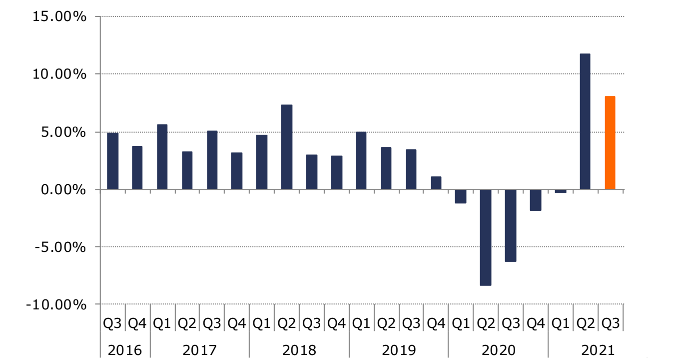
One of the major reasons for this season's extremely good production was very good weather throughout the crop year. Good rainfall ahead of the main crop, a mild Harmattan with cool temperatures, and good rainfall in the buildup to the mid-crop all helped efforts for a bumper crop. Rabobank is reluctant to assume weather conditions will be as perfect next season. Rainfall, at present, appears in line with the average, and there is a possibility of another La Niña occurring in the months ahead. This could mean good rainfall ahead of the 2021/22 main crop. Beyond November/December, the outlook becomes more uncertain, and we may see a more normal dry season, which could mean a more normal mid-crop. We maintain our forecast for 2021/22 production, with slightly lower production year-on-year for Côte d'Ivoire and Ghana.

We expect demand to continue to grow strongly and resume its pre-pandemic growth trend in Q4 2021 as economies continue to reopen, with a boost to demand post-pandemic during 2021/22. As a result of this, we continue to expect the 2021/22 season to be relatively well balanced, with a small surplus of around 50,000mt. We expect prices to rise steadily into 2022 as exchange stocks begin to be drawn down in Q3 2021.

US merchant cocoa stocks show little sign of net decline bucking the seasonal trend on continue export flow

Source: Bloomberg Finance L.P., Rabobank 2021

Q2 grindings in the main consumer regions showed a strong recovery, we expect growth to continue in Q3 at 8% YOY



Source: ECA, NCA, CAA, Rabobank 2021

Cotton

ICE #2 Dec21 Cotton marched higher, testing the USc 90/lb level

- Prices will likely remain supported for the next few months and be tested by the arrival of the Brazilian and US harvests.
- US cotton production appears to be in very good shape, having gone from a crop that was 41% in drought in March to 0% in drought as of July 20.
- Chinese import demand may surprise to the upside.

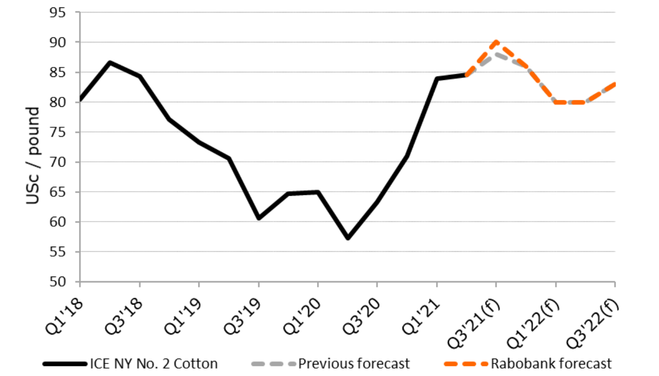
Cotton prices moved convincingly higher in July, testing the USc 90/lb level. Strong demand expectations for 2021/22 and limited exportable stocks until the arrival of the Brazilian harvest should keep prices elevated for the next two to three months. The Brazilian harvest is making good progress but appears a little delayed in key producing state Mato Grosso at 17% complete compared to the five-year average of 20% and last year's 27%. Uncertainty over shipping availability may add further bullish sentiment, or at least volatility, to the market as cotton competes with corn and sugar for limited export space. Global demand expectations for 2021/22 continue to be good, with the USDA revising its expectations higher this month. We see potential for this number to creep higher despite concerns of the renewed spread of Covid-19, but it may be slow to adjust.

US cotton production appears to be in very good shape, having gone from a crop that was 41% in drought in March to 0% in drought as of July 20. US good-excellent ratings are high at 61%, and development is near the five-year average but continues to be slightly delayed, with 37% of the crop setting bolls compared to the five-year average of 44%. Although the USDA reduced its acreage estimate from 12m to 11.7m acres after the June acreage report, abandonment was reduced on improving weather, resulting in higher production at 17.8m bales. Rabobank sees scope for this figure to rise further, as the forecasted weather has potential to lift yields, if it continues throughout the rest of the season, and elevated prices in the months ahead will discourage further abandonment. Of course, producers will still have the hurricane season to get through in the US. The focus of the market will move increasingly toward the weather, and as a result, we could see volatility similar to that seen recently in G&O markets. Particularly if there is a bad storm forecast hitting the Texas Panhandle or the delta.

Import demand appears to be faring well, and we may see a return to growth in the years ahead. Global 2021/22 import demand is expected to fall short of 2020/21 by around 2m bales, despite higher global production as China winds down ending stocks. Rabobank sees scope for higher-than-expected imports in China, as well as elsewhere in Asia. The US will likely be a key export partner, but Australia could benefit due to its close proximity and given the environment of high shipping costs. Prices may begin to temper with the arrival of harvests in Q4 2021, but they will likely remain elevated compared to historic levels. Despite increasing concerns of renewed outbreaks of Covid-19, it seems unlikely that prices would fall off significantly, given the adaptation of supply chains. The potential for shipping delays may be more of a concern for markets, with the potential for price spikes if there are issues.

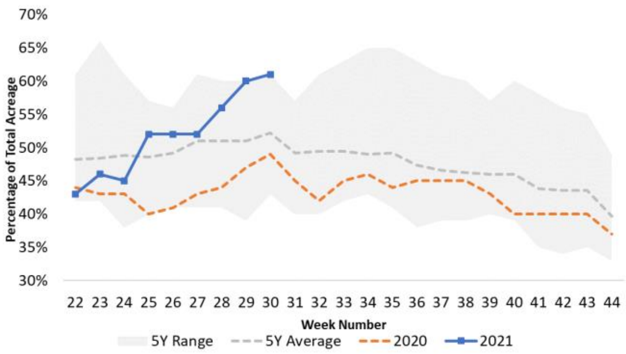
ICE #2 Cotton forecast mostly unchanged

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Cotton	USc/lb	71.0	83.9	84.5	90	86	80	80	83



Source: Bloomberg Finance L.P., Rabobank 2021

US crop conditions appear very good across major producing states, with 61% of the crop rated good-excellent



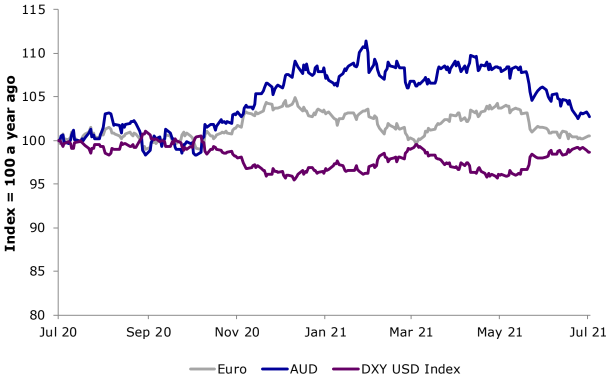
Source: USDA, Rabobank 2021 as of 25 July 2021

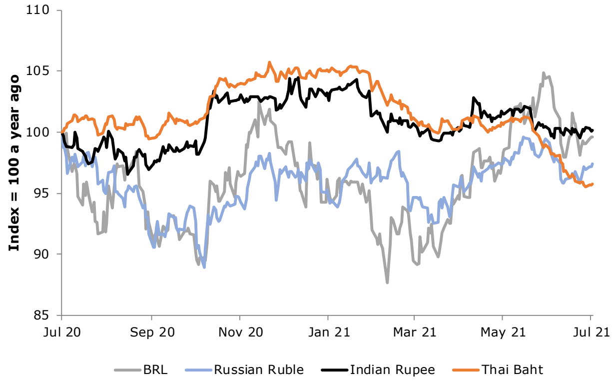
Rising Chinese cotton prices amid tighten stocks may result in higher than expected imports

Source: Bloomberg Finance L.P., IMEA Rabobank 2021

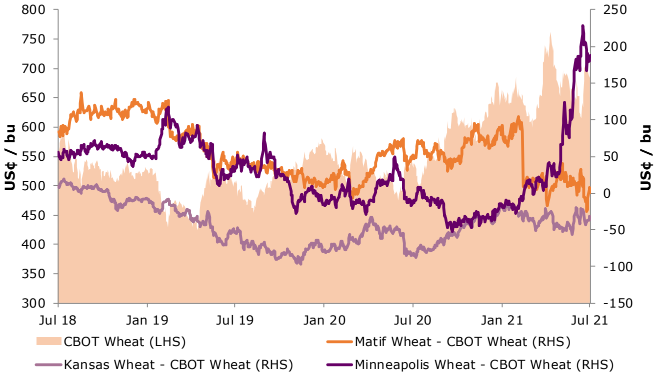
Agri Charts

Global Currencies USD Cross

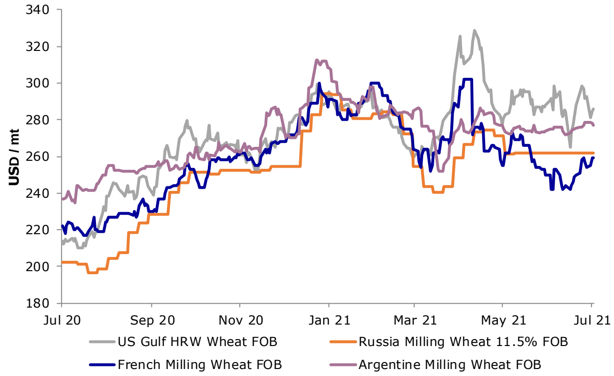




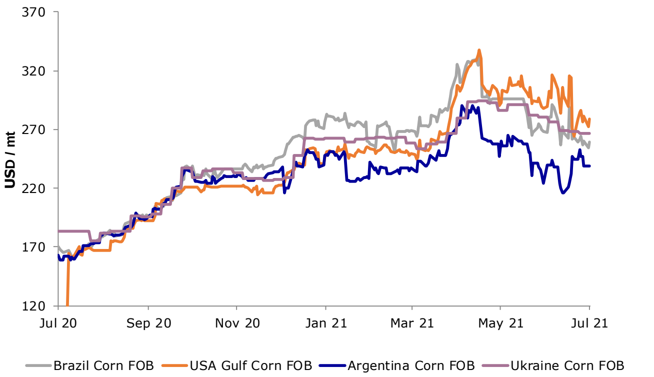
CBOT Wheat Spreads



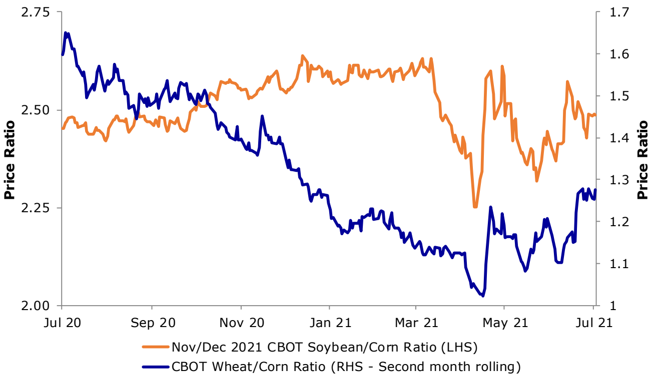
Wheat Protein FOB Prices



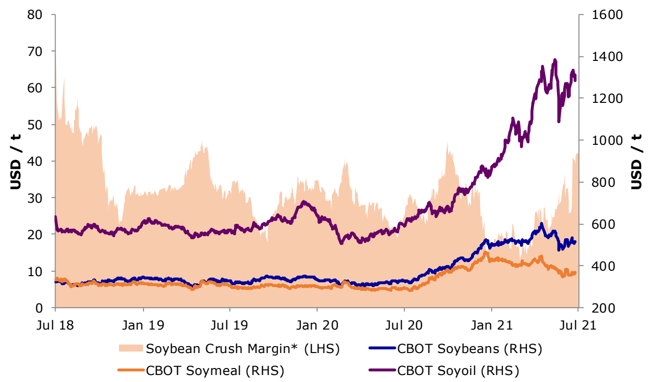
Corn FOB Prices



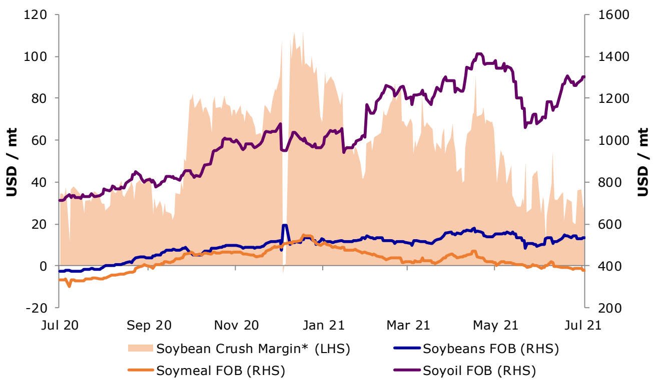
CBOT Ratios



CBOT Soybean Crush Margin



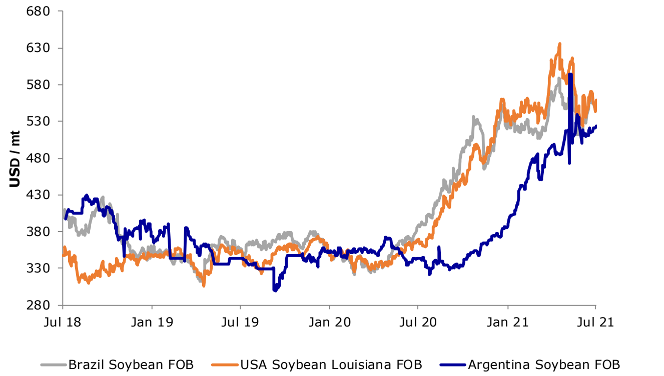
Argentina FOB Soybean Crush Margin



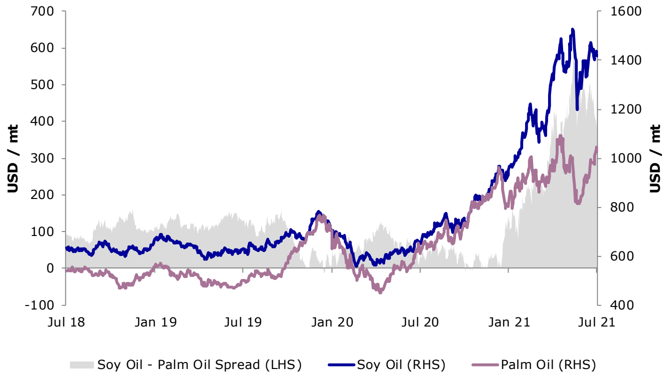
Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

Agri Charts

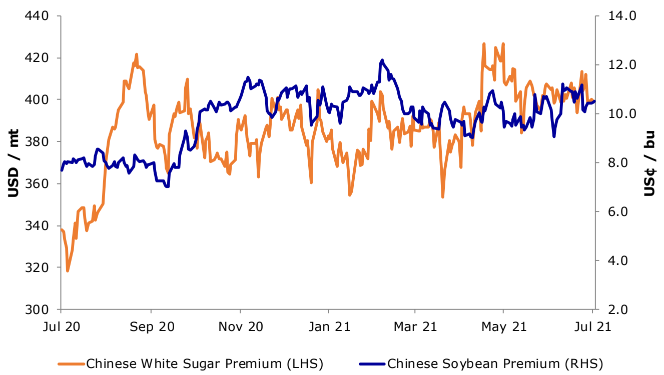
Soybean FOB Prices



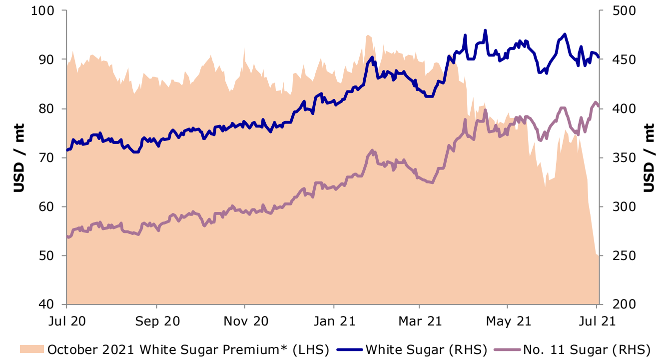
Palm Oil - Soy Oil Spread



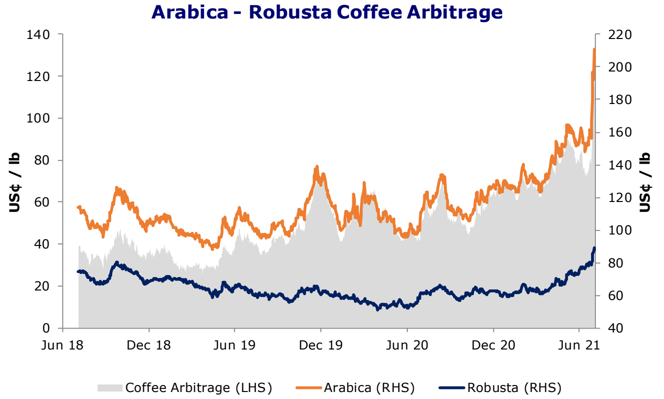
Chinese Futures Premiums



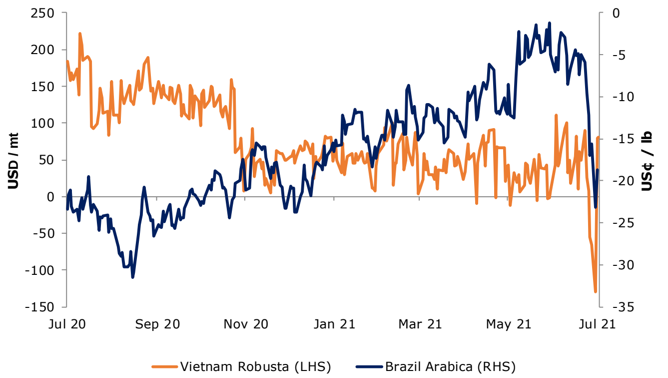
White Sugar Premium



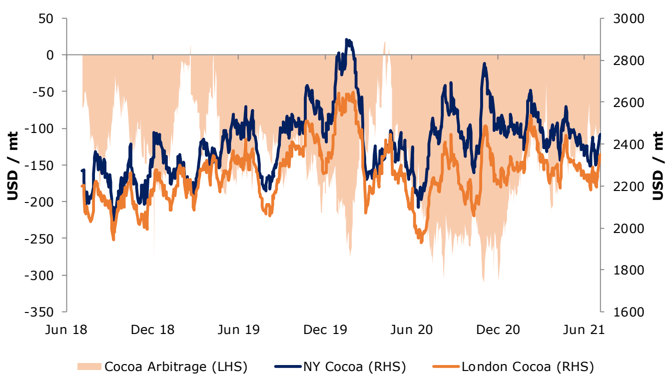
Arabica - Robusta Coffee Arbitrage



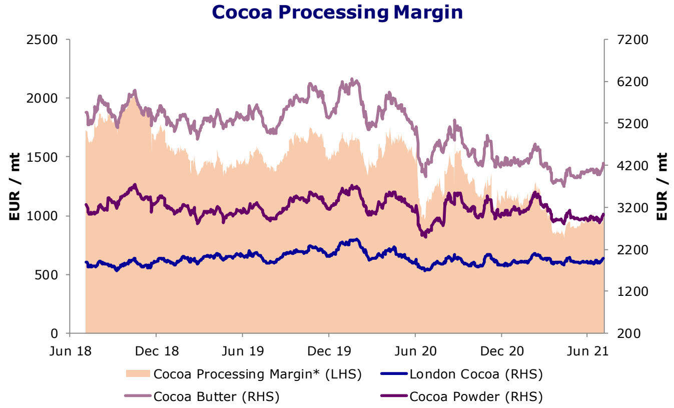
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

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Methodology note: For ICE Sugar (raws and whites), ICE Arabica, ICE Robusta, and ICE Cocoa (NY and London), we aim to forecast the second rolling contracts, whereas for Palm Oil, we aim to forecast the third rolling contract. We have also used these contracts in the price diagrams. For all other contracts, we focus on the front month.

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A summary of the methodology can be found on our website